

DE News

March 1, 2002 – Iowa Department of Education – Ted Stilwill, Director

Fiscal 02 cutbacks mean more reductions in Fiscal 03

An agreement among state leaders this week on how to manage the state's budget shortfall has resulted in 1) authority to use the state's Rainy Day fund and a number of other fund transfers to cover some costs, 2) an additional 1% reduction for most state agencies, and 3) further reductions through furloughs or an amount equal to what would be gained through furloughs. Combined, these measures will provide the \$120 million the state needs to stay on track for the remainder of this fiscal year.

As part of the agreement, several key priority areas – such as state aid for K-12 schools, AEAs and community colleges and public safety – will not be cut. Although the Department of Education itself must implement the 1% cut, plus reductions equal to the amount that could be achieved through furloughs.

Budget planning for Fiscal 03: Challenge the assumptions

With the Fiscal 02 shortfall resolved for now, state leaders are turning their attention to budgets for Fiscal 03. Superintendents, community college presidents, and AEA administrators are eager to proceed as well. On a daily basis, I am asked by local school districts how they should proceed given the rapidly approaching deadlines for budget certification and staff planning. For this communication, I will concentrate on budget planning for school districts, but I think community college presidents and AEA administrators may get useful information from these comments. Both AEAs and community colleges have been through the most severe reductions in actual revenues during the last year.

You are free to ignore this advice. It is not a recommendation and it is certainly not a directive. I would simply urge you to challenge some traditional assumptions that may have given you some comfort in budget planning in prior years. You will be much less comfortable, but you will be better prepared. In addition, you will be better able to articulate the negative impact of declining revenues. Unless each of us is able to describe the negative impact with the integrity and detail that only comes from serious planning, we are defenseless when these reductions are discussed in the abstract.

Assumption One: We have seen the worst of this.

While no one can predict the future, I think there is an advantage to directly challenging the assumption that suggests things will get better quickly. If revenues increase, you can celebrate. If they stay at the same level or decline further, you and your district should be prepared. To give you some historical perspective, our actual receipts in Fiscal 99 were about \$4.397 billion; in Fiscal 00 they were about \$4.670 billion, and in Fiscal 01 they were \$4.645 billion. The December 2001 estimate for Fiscal 02 was \$4.673 billion, but by last week, the estimated receipts for this fiscal year were lowered to \$4.552 billion, a \$120 million reduction. As these revenues fell, many costs increased. While there are projections that Iowa will move out of these economic doldrums, I have not seen any projections that suggest that we will move out quickly. It will take a while before we can regain some growth momentum. Unfortunately, there is also no guarantee that things will not actually worsen.

Assumption Two: Allowable growth will be 1% for Fiscal 03.

The Governor and the legislative leadership have both continued to voice a commitment to that level of funding and it is feasible that school districts will be funded at that level. I firmly believe that this modest level of growth is the bare minimum needed. However, the Revenue Estimating

Conference has told us that we have a \$131 million shortfall for next year in the budget, which includes that 1% allowable growth recommendation. When the Governor recommends a new budget for Fiscal 03, it will take greater sacrifices in other areas to maintain the education funding levels he recommends. Will the Legislature agree to those areas of reduction?

Assumption Three: School districts always have budget authority to levy for state shortfalls.

There is growing legislative concern that reductions in state aid not result in increases in local property taxes. At the time of the special session last November for example, the Department received significant inquiries from legislators on how the across-the-board cut could be implemented to include restricted budget authority so that the ability to levy locally would be reduced. There has been recent discussion by some legislators of negative allowable growth numbers for Fiscal 03 that would have the effect of reducing the state aid portion of district funding, but would also restrict authority or growth in authority and therefore control local property taxes. Of course, this also complicates the role of the budget guarantee and potential property tax increases.

Assumption Four: Districts have ample cash reserves to survive the shortfalls.

The Department has no mechanism to monitor reserves other than on an annual basis. However, our assumption (based on reserves available at the beginning of the year and estimating the impact of the consequent reduction) is that two-thirds to three-fourths of Iowa school districts are not able to absorb further reductions by using cash reserves.

Assumption Five: Even if all of the above assumptions collapse, the budget guarantee will provide a safe harbor.

Most districts on the guarantee don't feel as though they have plush funding, but it is usually better than the alternative. At 1% allowable growth for Fiscal 03, we estimate the number of districts on the guarantee would be about 245, with a new property tax implication of \$27.5 million. At 0.0%, the number goes to 286 and the potential property tax impact would be \$40.9 million. It is not unreasonable to assume that there may be some interest in controlling that property tax impact and providing limitations on the "relief" offered by the guarantee.

Assumption Six: A school district would be able to easily identify any of the threats above and respond.

It may be most likely that new proposals will emerge that combine several elements of the assumptions above. For example, categorical funding can be moved into foundation aid to provide greater flexibility and maintain a higher level of allowable growth, but might not result in new funds in the aggregate. What might appear to be an increase in revenue is actually a redistribution, or may be only property tax relief. It may be difficult to tell if total resources actually increase or in fact are actually decreasing until all the parts are assembled and the math is complete.

What this means for schools

It could be hours or it could be days before the Legislature makes a final decision on budgets for Fiscal Years 03 and 04. You can and should plan now for various budget scenarios.

- We are aware that you are preparing to submit a budget for certification (or have already done so) without knowing next year's allowable growth rate. You may build your budget and submit it to your county auditor using an allowable growth in the range of 0% to 4%; however **you should anticipate that both your state aid and property tax amounts are subject to change, and will be finalized by the Department of Management once an allowable growth rate has been set.**
- Again, it is your call, but it seems to me that districts should be working with their boards and staffs now to plan several contingency budgets that will help you prepare for the anticipated reductions in allowable growth levels. I would suggest that you use the Aid and Levy Worksheet to varying revenue levels for allowable growth rates of +1%, 0%, -

1%, and -2%. You can then sketch budgets for the one or two levels you believe most likely. Planning now allows you to act more quickly and thoughtfully when tough budget decisions must be made, and also allows you to communicate more effectively with staff, parents and concerned citizens.

- Sharing these scenarios carries risk. There likely will be little initial reward for forcing the conversation about more difficult budget planning, but it also helps promote an awareness of the challenges that your district might be facing.

What about the budget guarantee?

More than 100 school districts in Iowa are now familiar with how the budget guarantee operates since they are affected today. The number of districts on the guarantee will increase due to declining enrollment and may increase quickly due to lower levels of allowable growth as noted above. If you do the projections mentioned above, here are some things you may need to know about the budget guarantee:

- A budget adjustment only applies to your regular program district cost.
- The guaranteed amount is the 2001-02 regular program district cost including any adjustments added to the 2001-02 regular program district cost.
- The guarantee is not automatic; your board must adopt a resolution and notify the Department of Management by April 1 that you wish to receive a budget adjustment.
- A board may ask for a budget adjustment that is less than the amount required to bring the Fiscal 03 regular program cost up to the Fiscal 02 regular program district cost.
- The adjustment is supported with property taxes only.
- The Fiscal 04 budget guarantee for regular program district costs will be based upon the Fiscal 03 budget including any adjustments.
- Beginning in Fiscal 05, the historical method of determining budget adjustments will begin to be phased out, with the program set to expire over 10 years.

In conclusion

Although this information is difficult to convey and to digest, I hope you will give it some consideration. You certainly are free to reject any of this at your complete discretion. But I have always believed in giving you the most accurate perspective I can.

Your leadership will make the biggest difference at this point in time in order to keep the educational ship moving forward. I believe that your efforts in providing stewardship for education in our state may be the most critical factor in moving Iowa's economy forward in the long-term.

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"Helping communities meet the learning needs of all of their children and adults"

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